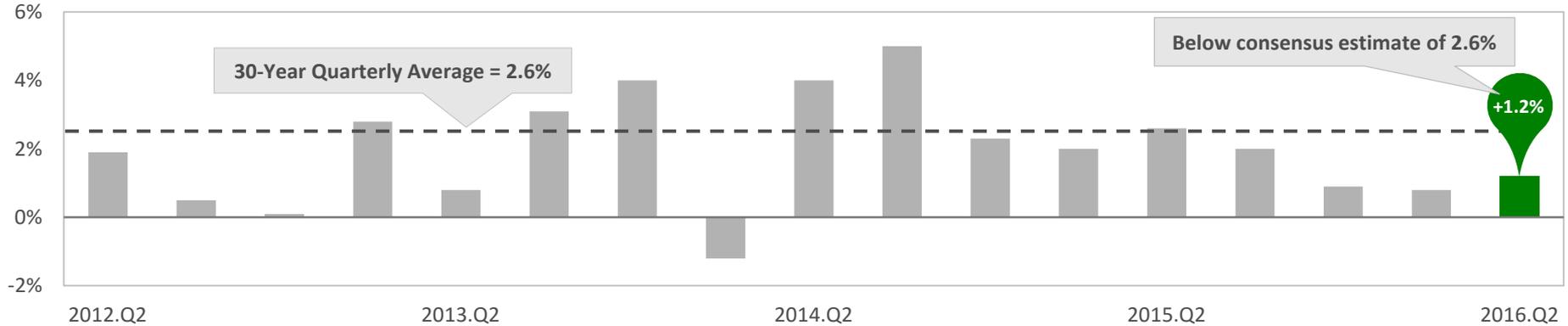


THE TOP LINE: U.S. GDP REPORT

Second Quarter 2016: First Estimate (Released 07.29.16)

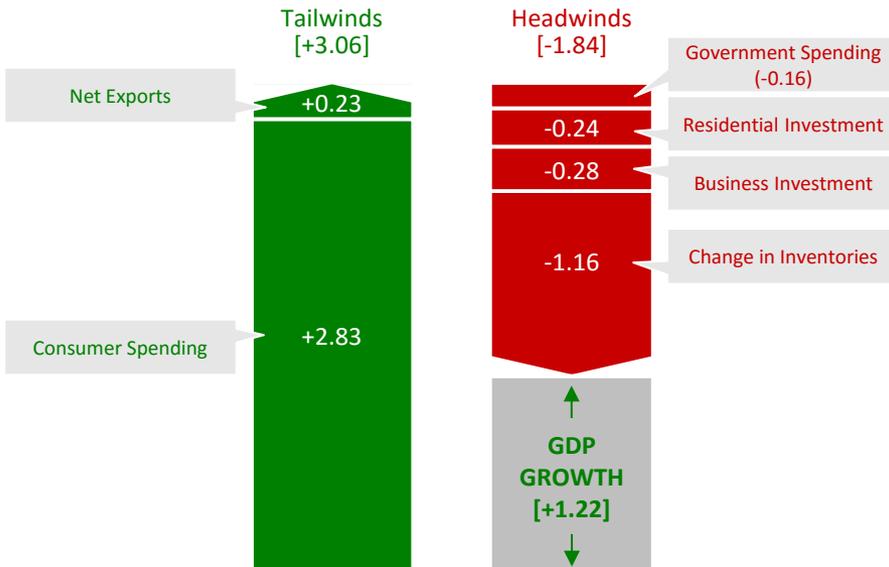
REAL GDP GROWTH

Annualized Percent Change from Previous Quarter



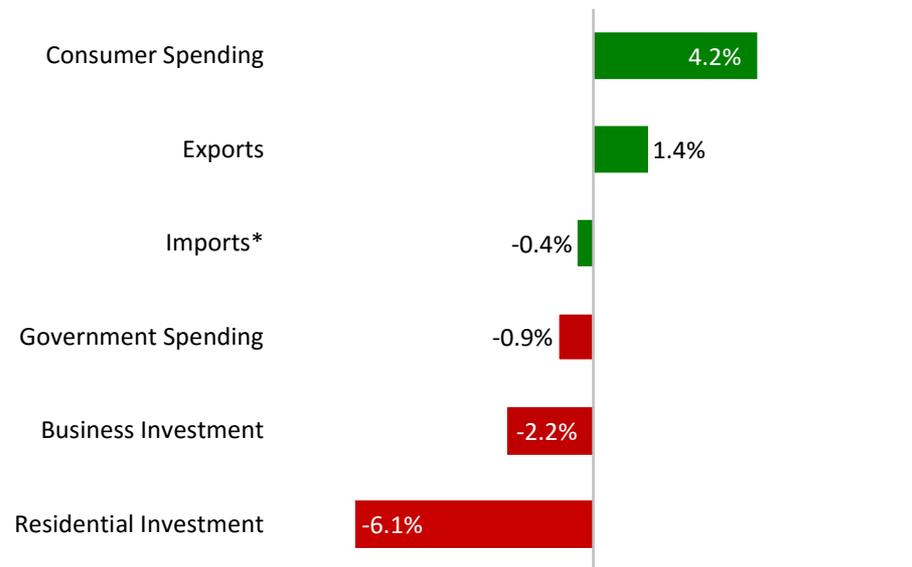
TAILWINDS & HEADWINDS

Contributions to GDP Growth by Sector



SECTOR PERFORMANCE

Annualized Percent Change from Previous Quarter



* Increases in imports are indicated in red and decreases in imports are indicated in green. The value of imports is included in other components of GDP and, therefore, it is subtracted from all other components when calculating GDP. However, this accounting adjustment should not be interpreted as imports having a negative effect on GDP or economic growth.

THE TOP LINE: U.S. GDP REPORT

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GDP

The U.S. economy expanded by 1.2% in Q2 after growing by just 0.8% (revised) in Q1. Robust consumer spending and positive net exports were nearly offset by weak investment and a decline in government spending. In particular, a sharp reduction in inventories subtracted 1.16 percentage points from GDP. Despite a firming labor market and strong consumer spending, will this quarter's disappointing report make the Fed less likely to raise interest rates in 2016?

C

Consumer Spending

Durable Goods	Non-Durable Goods	Services
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Consumer spending advanced at a strong 4.2% pace in the second quarter, marking its largest gain since the fourth quarter of 2014. Spending on goods increased by 6.8%, while spending on services rose by 3.0%.

I

Investment

Business Investment	Residential Investment	Change in Inventories
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Investment contracted by 9.7% in the second quarter. Inventories were cut sharply, business investment was down for the third straight quarter, and residential investment fell for the first time in two years. Will the drawdown in inventories cause business investment to ramp up in the second half of this year?

$$GDP = C + I + G + NX$$

G

Government Spending

Federal Government	State & Local Governments
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Overall government spending decreased by 0.9% in the second quarter after expanding by 1.6% in the first quarter. State and local government spending declined by 1.3%, while federal spending dipped by 0.2%, led by cuts in defense spending.

NX

Net Exports

Exports	Imports*
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Net exports were positive in the second quarter, adding 0.23 percentage points to growth. Imports fell by 0.4% while exports grew by 1.4%, marking the first quarter of positive gains since Q2 2015. Will these gains be sustained amid the dollar's continued strength and economic uncertainty in Europe?

* The value of imports is included in other components of the GDP and, therefore, it is subtracted from the sum of the other components (i.e., an increase in imports results in a larger downward adjustment when calculating GDP). However, this accounting adjustment should not be interpreted as imports having a negative effect on GDP or economic growth.